



Tony Evers, Governor of Wisconsin  
Mark Afable, Commissioner of Insurance

DATE: October 14, 2020

TO: Amy Malm  
Elena Vetrina

FROM: Kristin Forsberg

SUBJECT: Form A – Acquisition of Control of Southern Fire and Casualty Company by Sentry Insurance A Mutual Company (“Sentry” or “Applicant”)

The purpose of this memo is to summarize the filing and the basis for OCI’s recommendation regarding the proposed acquisition of control of Southern Fire and Casualty Company by Sentry Insurance A Mutual Company.

**Form A Filing Contacts:**

<b>Primary Contact (Sentry):</b>		<b>Primary Contact (QBE):</b>	
Kevin Fitzgerald, Attorney		John Svoboda, Head of Regulatory Relations	
Foley & Lardner LLP		QBE North America	
777 E. Wisconsin Ave.		55 Water Street, 19th Floor	
Milwaukee, WI 53202		New York, NY 10041	
Phone: (414) 297-5841		Phone: (212) 805-9851	
Email:	<a href="mailto:kfitzgerald@foley.com">kfitzgerald@foley.com</a>	Email:	<a href="mailto:John.Svoboda@us.qbe.com">John.Svoboda@us.qbe.com</a>
<b>Additional Contact (Sentry):</b>			
Raina Zanow, Associate General Counsel			
Sentry Insurance a Mutual Company			
1800 North Point Drive			
Stevens Point, WI 54481			
Phone: (715) 346-6483			
Email:	<a href="mailto:Raina.Zanow@sentry.com">Raina.Zanow@sentry.com</a>		

**Form A Exhibits (filed with the WI OCI on July 16, 2020):**

<b>Exhibit 1(a)(i)</b>	<b>Purchase Agreement (with exhibited agreements thereto)</b>	
<b>Exhibit 1(b)</b>	<b>Disclosure Schedules to the Purchase Agreement</b>	<b>[Confidential]</b>
<b>Exhibit 2(c)(i)</b>	<b>Present Organization Chart of Sentry and its Affiliates</b>	
<b>Exhibit 2(c)(ii)</b>	<b>Post-Acquisition Organization Chart of Sentry and its Affiliates</b>	
<b>Exhibit 5</b>	<b>Business Plan</b>	<b>[Confidential]</b>
<b>Exhibit 12(a)</b>	<b>Three-year Financial Projections</b>	<b>[Confidential]</b>
<b>Exhibit 12-1</b>	<b>Sentry's 2019/2018 FY Audited Consolidated Financial Statements</b>	
<b>Exhibit 12-2</b>	<b>Sentry's 2018/2017 FY Audited Consolidated Financial Statements</b>	
<b>Exhibit 12-3</b>	<b>Sentry's 2017/2016 FY Audited Consolidated Financial Statements</b>	
<b>Exhibit 12-4</b>	<b>Sentry's 2016/2015 FY Audited Consolidated Financial Statements</b>	
<b>Exhibit 12-5</b>	<b>Sentry's 2015/2014 FY Audited Consolidated Financial Statements</b>	
<b>Exhibit 12-(c)</b>	<b>Sentry's 2018 and 2019 Annual Reports to Members</b>	

## **BACKGROUND: PARTIES; SUMMARY OF THE TRANSACTION**

### **Parties to the Transaction:**

#### **The Acquirer/Applicant: Sentry Insurance A Mutual Company (“Sentry” or “Applicant”)**

The Applicant’s name and address is:

Sentry Insurance A Mutual Company  
1800 North Point Drive  
Stevens Point, WI 54481

The Applicant is a Wisconsin mutual insurance company headquartered in Stevens Point, WI. Sentry was organized under Wisconsin law in 1904 as Hardware Mutual Casualty Company to provide insurance for the hardware industry. Sentry adopted its present name in 1971.

The Applicant is the ultimate parent of the Sentry Group, which consists of 27 wholly-owned companies, 6 affiliated companies, and over 4,400 employees located across the U.S. The Sentry Group includes:

- 12 Property & Casualty Insurance Companies (which underwrite a wide variety of P&C products, including: Commercial Liability, Property, Private Passenger Auto, Commercial Auto, and Workers’ Compensation);
- 3 Life Insurance Companies (which underwrite: life, annuities, and accident & health insurance);
- Ancillary Subsidiaries (which conduct insurance-related activities); and
- Other non-insurance subsidiaries.

As of December 31, 2019, the Sentry Group’s consolidated surplus was over \$6B. The current A.M. Best financial strength rating is “A+” (Superior) (Outlook: Stable).

#### **The Party to be Acquired: Southern Fire & Casualty Company (“SFCC”, “Company”, or “Domestic Insurer”)**

The Company is a property and casualty insurer that was incorporated in Tennessee in 1953. SFCC redomiciled to Wisconsin in 2005 and was subsequently acquired by General Casualty Company of Wisconsin. SFCC became part of the QBE Group in 2007.

The Company is a wholly-owned subsidiary of General Casualty Company of Wisconsin, which in turn is a wholly-owned subsidiary of QBE Regional Companies (N.A.), Inc. (“QBENA”). The ultimate parent company of the QBE Group is QBE Insurance Group Limited (a publicly traded Australian corporation). The QBE Group is one of the top 20 international insurance groups, with over 12,000 employees in 31 countries. Product offerings target specific niches, such as U.S. Crop, Lloyd’s of London, and program business. On a direct basis, the Company primarily writes personal P&C business in the Southeast. SFCC is licensed in 11 states, but recently, has only written direct business in GA, NC, SC and VA.<sup>1</sup>

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<sup>1</sup> The Company’s direct premiums written declined by 83% from 2015 through 2019, primarily due to QBENA’s decision to sell the renewal rights of its unprofitable independent agent personal lines book of business to Safeco in 2018. The Company has not written any premiums for YTD 2020.

SFCC is a member of the QBENA underwriting pool, whereby SFCC cedes 100% of its underwriting results to the pool and participates at 0% in the pooled business.<sup>2</sup>

The Company also participates in a number of reinsurance treaties as well as a 40% Quota Share Reinsurance Agreement with QBE's Bermuda-domiciled reinsurer, QBE Blue Ocean Re Limited ("Blue Ocean Re") (these cessions occur prior to SFCC's cessions to the QBENA pool). To secure the cessions to Blue Ocean Re (an unauthorized reinsurer), as well as previous cessions to Blue Ocean Re's predecessor (Equator Re) (also unauthorized), OCI imposed two separate Stipulation and Orders on SFCC requiring that cessions to Blue Ocean Re and Equator Re be secured through single beneficiary trusts. [The Stipulation and Order with Equator Re is: Case No. 19-C43048. The Stipulation and Order with Blue Ocean Re is Case No. 19-C43054.]

### **The Proposed Transaction:**

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The Applicant intends to acquire control of the Domestic Insurer by acquiring 100% of the issued and outstanding capital stock of SFCC, in accordance with the terms and conditions of the Stock Purchase Agreement dated June 26, 2020 ("Purchase Agreement") by and between Sentry and General Casualty Company of Wisconsin ("Seller"). ***The key terms of the Purchase Agreement are stated below:***

- **Consideration (Purchase Price):** Sentry will pay to Seller an aggregate cash purchase price of (i) \$175,000 multiplied by the number of state licenses held by the Domestic Insurer (unless there is a deficiency), and (ii) the Surplus Amount remaining in the Domestic Insurer (the "Purchase Price").
- **Closing Date:** The Closing will take place on November 1, 2020.
- **Administrative Services Agreement (see Exhibit A to the Purchase Agreement):** At the Closing, the Domestic Insurer and QBE Insurance Corporation shall enter into an Administrative Services Agreement ("ASA") to be effective at the Closing Effective Time, pursuant to which QBE Insurance Corporation will provide administrative services with respect to the Policies in effect prior to the Closing and related Inuring Reinsurance Agreements and TPA Contracts.
- **Loss Portfolio Transfer and Quota Share Agreement (See Exhibit B to the Purchase Agreement):** At the Closing, the Domestic Insurer and QBE Insurance Corporation shall enter into a Loss Portfolio Transfer and Quota Share Reinsurance Agreement ("LPT"), the effect of which shall be for QBE Insurance Corporation to assume all Policy Liabilities of the Domestic Insurer relating to: (i) All treaties, policies, binders, slips or other contracts of insurance or assumed reinsurance issued or entered into by or on behalf of the Domestic Insurer prior to the Closing Effective Time, (ii) All renewals, if any, of such policies, binders, slips or other contracts of insurance that are issued on or after the Closing Effective Time, to the extent that such renewals are required by applicable law or under contractual commitments of the Domestic Insurer entered into prior to the Closing Effective Time, and (iii) All policies, binders, slips or contracts of insurance that are required to be issued or accepted on or after the Closing Effective Time by or on behalf of the Domestic Insurer as a result of assignments from Involuntary Mechanisms (such as risk transfer plans, FAIR plans, etc.) to the extent that such assignments are directly attributable to the business described in (i), (ii), or (iii) above (the "Policies").
- **Pooling Assignment and Assumption Agreement (See Exhibit C to the Purchase Agreement):** At the Closing, the Domestic Insurer, Seller, and QBE Insurance Corporation shall enter into a Pooling Assignment and Assumption Agreement, whereby as of the Effective Time, all rights, privileges, liabilities and obligations of the Company in, to and arising under the QBENA Pooling Agreement are assigned to and assumed by the Seller.

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<sup>2</sup> The Company does not currently employ, and since January 1, 2020, has not employed, any employees. All administrative services are provided to the Company via affiliated administrative services agreements (as disclosed in Sch. 4.8(c)).

- **Termination of Existing Intercompany Agreements/Settlement of Intercompany Accounts:** All of the intercompany agreements between the Domestic Insurer and Seller or any affiliates (not including the LPT or ASA), will be unwound, amended, or terminated pursuant to their terms at Closing. Seller has, or will shortly, file any pre- or post-termination notices required to effectuate the same, including those required under s. Ins 40.04 (2), Wis. Adm. Code. Prior to the Closing Date, Seller shall cause all intercompany balances to be settled.
- **Agent Contracts:** Prior to the Closing Date, Seller shall use its commercially reasonable efforts to cause all Agent Contracts to be terminated or amended to remove the Company as a party thereto.
- **Asset Transfer:** Pursuant to Section 3.2 of the Purchase Agreement, prior to Closing, Seller shall cause the Domestic Insurer to transfer assets (the “Asset Transfer”) to Seller (or an Affiliate of Seller) in an amount sufficient to reduce the remaining Acceptable Financial Assets<sup>3</sup> of the Domestic Insurer to no less than \$4,000,000 and no more than \$5,000,000. Following the Asset Transfer, and consummation of the transactions contemplated by the LPT, the Domestic Insurer shall not have any material assets other than Acceptable Financial Assets, the Insurance Licenses, and the reinsurance recoverables under the LPT and applicable Reinsurance Agreements. [As a result, for all practical purposes, the Domestic Insurer shall take on the characteristics of a “shell” insurer as of the Closing Effective Time.]
- **Corporate Name:** No later than 30 days following the Closing Date, the Company shall change its corporate name to a new name that does not include “Southern Fire” or any variation thereof.
- **Guaranty:** Pursuant to Section 8.19 of the Purchase Agreement, at the Closing, Seller shall deliver to Buyer a Guaranty whereby QBE Insurance Group Limited (the publicly traded, Australian parent entity of Seller) shall guaranty the obligations of Seller under the Purchase Agreement, ASA, and LPT.

<b>FORM A FILING – SUMMARY</b>
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**Item 1: Method of Control**

See discussion under “The Proposed Transaction” (above).

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**Item 2: Identity and Background of the Applicant**

See discussion under “Parties to the Transaction” (above).

A pre-transaction organizational chart was included as Exhibit 2(c) (i). [There are no court proceedings looking towards a reorganization or liquidation of any entity listed.] A post-transaction organizational chart was included as Exhibit (2)(c) (ii).

Following the proposed acquisition, Sentry and the Sentry Group intend to maintain their current business operations (except for changes relating to Sentry’s planned mutual holding company conversion).

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**Item 3: Identity and Background of Individuals Associated with the Applicants**

**Officers and Directors:** A list of the names, titles and business addresses of the Applicant’s directors and executive officers at the effective date of the proposed acquisition is included in the Form A (page 5). The Form A states: “Except as stated in their respective biographical affidavits, no director or executive officer of the Applicant has been convicted in a criminal proceeding (excluding traffic violations not involving death or injury) during the past ten (10) years.”

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<sup>3</sup> “Acceptable Financial Assets” shall mean only the following kinds of assets: (i) Cash and Cash Equivalents; and (ii) Existing deposits of cash or securities with the Insurance Regulatory Authorities of the states listed on Sch. 4.31, all of which securities are rated as “investment grade” by the SVO, and constitute permissible investments under the insurance laws of the State of Wisconsin.

Biographical Affidavits were submitted under separate cover and were reviewed. No exceptional responses requiring further comment were noted.

**Item 4: Nature, Source and Amount of Consideration**

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The Applicant will purchase the Domestic Insurer for the Purchase Price discussed above (see “The Proposed Transaction” section). Sentry will pay the Purchase Price in cash, in exchange for all of the issued and outstanding shares of the Domestic Insurer.

The Purchase Price is a result of arms’ length negotiations between the parties. The Applicant and the Seller were represented by separate and independent legal advisors.

**Item 5: Acquiring Party’s Future Plans for Insurer**

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Other than as discussed in the Business Plan (see “Business Plan” section), the Applicant has no present plans or proposals to cause the Domestic Insurer to declare an extraordinary dividend, liquidate, sell its assets, or merge with any person or persons, or otherwise make any material changes to the business operations or corporate structure or management of the Domestic Insurer as a result of, or in connection with, the Proposed Acquisition, including no current plans to eliminate or non-renew lines of business or territories (other than those that have been non-renewed by the Domestic Insurer prior to the Closing).

The Applicant does intend that the current directors and officers of the Domestic Insurer will be replaced by the following directors and officers post-acquisition:

<b>Directors</b>	<b>Officers:</b>
Peter G. McPartland (Chairman)	Peter G. Anhalt (President)
Kip J. Kobussen	Michael J. Williams (Vice President)
James E. McDonald	Kip J. Kobussen (Secretary)
Todd M. Schroeder	Todd M. Schroeder (Treasurer)
Michael J. Williams	

**Item 6: Voting Securities to be Acquired**

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The Acquiring Party intends to acquire control of the Domestic Insurer by acquiring all of SFCC’s issued and outstanding capital stock (277,778 shares), all of which is voting common stock with a par value of \$9.00 per share.

In determining the amount of cash to be paid for the shares, the Applicant considered the lines of business that the Domestic Insurer is authorized to transact, its past and current business operations, financial condition, assets and liabilities, and such other factors and information as the Applicant considered relevant under the circumstances.

**Item 7: Ownership of Voting Securities**

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Other than as set forth in the Purchase Agreement, neither the Applicant nor any of its affiliates nor any of the persons listed in Item 3 has a beneficial ownership of, or the right to acquire beneficial ownership of, the voting securities of the Domestic Insurer.

**Item 8: Contracts with Respect to Voting Securities of the Insurer**

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Other than as described in the Form A and associated exhibited, there are no contracts, arrangements or understandings in which the Applicant or any person listed in Item 3 is involved with respect to any voting security, security convertible into or evidencing a right to acquire a voting security of the Domestic Insurer, including but not limited to, any transfer of any securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies.

**Item 9: Recent Purchases of Voting Shares**

There have been no purchases of any voting securities of the Domestic Insurer by the Applicant, its affiliates, or any person listed in Item 3 during the twelve (12) calendar months preceding the filing of this Form A.

**Item 10: Recent Recommendations to Purchase**

Except for the Purchase Agreement, none of the Applicant, any of its affiliates, anyone acting on its behalf, any person listed in Item 3, or anyone based upon interviews or at the suggestion of the Applicant, any of its affiliates, or any person listed in Item 3, has made any recommendations to purchase any voting security of the Domestic Insurer in the twelve (12) calendar months preceding the filing of this Form A.

**Item 11: Agreements with Broker-Dealers**

There are no agreements, contracts or understandings made by the Applicant, its affiliates, or any person listed in Item 3 with any broker-dealer to the solicitation of voting securities of the Domestic Insurer for tender.

**Item 12: Financial Statements and Exhibits**

- Exhibits 12-1 through 12-5 include Sentry's 2015 – 2019 Audited Consolidated Financial Statements.
- Exhibit 12-(c) includes Sentry's 2018 and 2019 Annual Report to Members.

**Summary of Extraordinary Distribution Request and Form D Filings Submitted in Conjunction with the Form A (filed 8/21/20)****Extraordinary Distribution Request:**

1. SFCC requested OCI's non-disapproval of a cash payment of \$3,500,000 (consisting of an ordinary dividend of \$771,000, an extraordinary dividend of \$1,229,000, and a return of capital of \$1,500,000) to its sole shareholder, GCW, in conjunction with the proposed sale of SFCC to Sentry in order to meet the agreed upon sale surplus value per Sec. 3.2 of the Purchase Agreement (\$4M - \$5M).

**Form D filings in connection with the termination, amendment or unwinding of intercompany contracts to remove SFCC as a party to various QBE Affiliated Agreements:**

2. Endorsement No. 3 to Quota Share Reinsurance Contract (Blue Ocean Re)
3. Endorsement No. 7 to Quota Share Reinsurance Contract (Equator Re)
4. Addendum No. 4 to Loss Portfolio Contract (Equator Re)
5. 3<sup>rd</sup> Revision of the 2020 Revision of the 1976 QBE North America Pooling Agreement (Various Affiliates)
6. Agreement to Terminate the Reinsurance Trust Agreement (Equator Re)
7. Agreement to Terminate the Reinsurance Trust Agreement (Blue Ocean Re)
8. 17<sup>th</sup> Amendment to the Tax Sharing Agreement (QBE Investments North America)
9. 16<sup>th</sup> Amendment to the Intercompany Cost Allocation and Management Services Agreement (Various Affiliates)
10. Agreement to Terminate the Global Investment Services Management Agreement (GISMA) and Separate Agreement created under the GISMA (QBE Group Services Pty Limited)

**Form D filings in connection with new agreements intended to transfer SFCC's existing rights and obligations to QBE affiliates:**

11. Administrative Services Agreement (QBEIC)
12. Pooling Assignment and Assumption Agreement (GCW)
13. Loss Portfolio Transfer and Quota Share Reinsurance Agreement (QBEIC)

**Note:** The request for payment of an extraordinary distribution (including a return of capital) and the related Form D's were non-disapproved by OCI (per letter dated October 19, 2020).

## Wisconsin Specific Requirements

The following checklist addresses the requirements of s. 611.72 (3) (am), Wis. Stat. (Grounds for Disapproval):

- a) After the change of control, the domestic stock insurance corporation or any domestic stock insurance corporation controlled by the insurance holding corporation would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed?

**Did the Filing Adequately Address this Concern? Yes<sup>4</sup>**

- b) The effect of the merger or other acquisition of control would not be to create a monopoly or substantially lessen competition in insurance in this state?

**Did the Filing Adequately Address this Concern? Yes<sup>5</sup>**

- c) The financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic stock insurance corporation or its parent insurance holding corporation, or prejudice the interests of its Wisconsin policyholders?

**Did the Filing Adequately Address this Concern? Yes<sup>6</sup>**

- d) The plans or proposals which the acquiring party has to liquidate the domestic stock insurance corporation or its parent insurance holding corporation, sell its assets, merge it with any person or make any other material change in its business or corporate structure or management, are fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest?

**Did the Filing Adequately Address this Concern? Yes<sup>7</sup>**

- e) The competence and integrity of those persons who would control the operation of the domestic stock insurance corporation or its parent insurance holding corporation are such that it would be in the interest of policyholders of the corporation and of the public to permit the merger or acquisition of control?

**Did the Filing Adequately Address this Concern? Yes<sup>8</sup>**

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<sup>4</sup> Post-acquisition, the Domestic Insurer would continue to meet Wisconsin's minimum compulsory and security surplus requirements pursuant to s. Ins 51.80, Wis. Adm. Code as well as other applicable requirements to do business in Wisconsin.

<sup>5</sup> The proposed acquisition would not create a monopoly or substantially decrease competition in Wisconsin as there is substantial competition in the lines of business proposed in the business plan.

<sup>6</sup> The acquiring party is considered to be financially strong, based on review of the capital standards promulgated by the NAIC, the State of Wisconsin, and the NRSRO's.

<sup>7</sup> The Applicant asserted in the Form A filing that it has no present plans or proposals to cause the Domestic Insurer to declare an extraordinary dividend, liquidate, sell its assets, or merge with any person or persons, or otherwise make any changes to the business operations or corporate structure or management of the Domestic Insurer (other than as set-forth in the Business Plan included as Exhibit 5).

<sup>8</sup> Review of the biographical affidavits submitted with the Form A filing did not raise any issues or concerns regarding the competence and integrity of those persons who would control the operations of the Domestic Insurer.

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**Hearing Requirement: Per s. 611.72 (3m), Wis. Stat.: “A hearing is not required under sub. (3) Before approval of a proposed plan of merger or other plan for acquisition of control if the proposed merger is with, or the proposed acquirer is, an affiliate of the insurer and the proposed merger or other acquisition of control does not change the controlling person of the insurer.” Is a hearing required for this filing? (Yes/No)**

**Yes.** The Applicant is not an affiliate of the insurer, and the proposed transaction will result in direct control of the Wisconsin Domestic Insurers. Therefore, a hearing is required.

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**Other Necessary Regulatory Approvals**

In addition to the approval of the Wisconsin Office of the Commissioner of Insurance, the proposed transaction and related Form D filings required the approval of the Pennsylvania Dept. of Insurance, the North Dakota Insurance Dept., and the Minnesota Dept. of Commerce as a condition precedent. All necessary regulatory approvals have been received.

**Conclusion**

It is recommended that the proposed acquisition of control of Southern Fire & Casualty Company by Sentry Insurance A Mutual Company be approved on the basis that there are no statutory grounds for denial pursuant to s. 611.72 (3), Wis. Stat.